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Fair Housing Council

of Northern New Jersey

131 Main Street

Hackensack, New Jersey 07601

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October 1, 2001

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G St., NW
Washington, DC 20552

Dear Sir/Madam:

RE: Strengthen CRA

The Fair Housing Council of Northern New Jersey believes that the Community Reinvestment Act (CRA) has been instrumental in increasing lending and investing to our community and many others around the country. The regulatory changes to CRA during 1995 strengthened the law by emphasizing a bank's performance in providing services and in making loans and investments. The federal banking agencies must now update the CRA regulations in order to further reinvestment in low- and moderate-income communities as well as underserved minority communities.

The results of the positive changes to the CRA regulation in 1995 have been significant. The Department of Treasury's study on CRA found that lending to low- and moderate-income communities is higher in communities in which banks have their CRA assessment areas than in communities in which banks are not examined under CRA.

To preserve the progress in community reinvestment the federal banking agencies must update CRA to take into account the revolutionary changes in the financial industry. The Gramm-Leach-Bliley Act of 1999 allowed mergers among banks, insurance companies and securities firms. Banks and thrifts with insurance company affiliates are now aggressively training insurance brokers to make loans. Securities affiliates of banks offer mutual funds with checking accounts. Mortgage company affiliates of banks continue to make a significant portion of the total loans, often



issuing more than half of a bank's loans.

If CRA exams hope to keep pace with the changes in lending activity, the Council strongly believes that CRA exams must rigorously and carefully evaluate subprime lending. The CRA statute clearly states that lenders have an affirmative obligation to serve communities in a safe and sound manner. CRA exams must be conducted concurrently with fair lending and safety and soundness exams to ensure that lending is conducted in a non-discriminatory and non-abusive manner that is safe for the institution as well as the borrower. The Fair Housing Council applauds a recent change to the "interagency Question and Answer" document stating that lenders will be penalized for making loans that violate federal anti-predatory statutes. This Question and Answer must become part of the CRA regulation.

The Fair Housing Council believes that lenders should be encouraged to make as many prime loans as possible since prime loans are more affordable for minority and low- and moderate-income borrowers. Significant research concludes that too many credit-worthy borrowers are receiving over-priced and discriminatory subprime loans. CRA exams must provide an incentive to increase prime lending. The Council proposes that lenders that make both prime and subprime loans will not pass their CRA exams unless they pass the prime part of their exams.

The CRA regulations must be changed so that minorities are explicitly considered on the lending test just like low- and moderate-income borrowers. Considerable research has revealed the domination of subprime lenders in refinance and home equity lending in minority communities. This lopsided market confronts minorities with few alternatives to high cost refinance lending. If minorities were an explicit part of the lending test, CRA exams would stimulate more prime lending in communities of color.

Segments of the banking industry will seek to weaken the CRA regulations and examinations. They will ask for the elimination of the investment test on large bank exams. They will also urge that more banks be allowed to qualify for the streamlined small bank exam and for the streamlined wholesale and limited purpose exam. The Fair Housing Council opposes the elimination of the investment test since low- and moderate-income communities continue to experience a shortage of equity investments for small business and other pressing economic development needs.

The present CRA exams are reasonable and are not burdensome for banks. Allowing more banks to qualify for streamlined exams will simply weaken CRA enforcement.

We urge the regulatory agencies to adopt these additional policies:

- Purchases of loans must not count as much as loan originations on CRA exams since making loans is the more difficult task.

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- The emphasis on quantitative criteria must remain in CRA exams.
- The Federal Reserve Board must enact its proposed HMDA reform to include information on interest rates and fees so that sub-prime lending can be assessed on CRA exams.
- The service test must be enhanced by data disclosure regarding the number of checking and savings accounts by income and minority level of bank customer and census tract.
- Low and high satisfactory ratings must be possible overall ratings as well as ratings for the lending, investment and service test of the large bank exam.
- The Gramm-Leach-Bliley Act of 1999 prohibited banks with failing CRA ratings from expanding into the insurance and securities business.

The Fair Housing Council believes that our suggestions for updating the CRA regulation will produce CRA exams that are rigorous, performance-based, more consistent and that are able to better capture the lending, investment and service activity of rapidly changing banks. These recommendations lead to enhanced enforcement of CRA.

This review of the CRA regulations is so vital that we urge the regulatory agencies to hold hearings around the country when they propose specific changes to the CRA regulation. It is vital that the federal banking agencies hear the diverse voices of America's communities as they consider a regulation that ensures that community credit needs are being met.

Thank you for your consideration.

Sincerely,



Lee Porter
Executive Director